

CALIFORNIA ARTS COUNCIL
2004

THE ARTS:
A COMPETITIVE ADVANTAGE
FOR CALIFORNIA II



EXECUTIVE SUMMARY

THE ECONOMIC IMPACT OF
NONPROFIT ARTS
AND
CULTURAL ORGANIZATIONS
IN CALIFORNIA

UPDATE TO THE 1994 ECONOMIC
IMPACT OF THE ARTS REPORT

ACKNOWLEDGMENTS

The Economic Impact of Nonprofit Arts and Cultural Organizations in California

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EXECUTIVE SUMMARY



CONDUCTED BY
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California



Arts Council

CALIFORNIA ARTS COUNCIL

ARNOLD SCHWARZENEGGER, GOVERNOR

CELEBRATING EXCELLENCE IN THE ARTS SINCE 1976

April 2004

California is a rare place of diversity, creativity, and innovation. From Crescent City to San Diego, the arts play a dramatic role in the state's cultural and economic ecosystems. But more than feeding the soul and spirit of all Californians, the contribution of arts and culture can be measured in tangible ways.

Released by the California Arts Council in 1994, *The Arts: A Competitive Advantage for California* was the first comprehensive report to measure the economic impact and value of the arts and culture sector. According to that report, nonprofit arts organizations added \$2.15 billion to California's economy. This new study, *The Arts: A Competitive Advantage for California II*, will reveal that the impact of nonprofit arts and culture on California's economy has increased by 152 percent to \$5.4 billion. The study will demonstrate that arts and culture generate billions annually, support a workforce of more than 160,000 and produce nearly \$300 million in state and local taxes. It will also show that education, cultural tourism, and California's creative industries are all nurtured by the nonprofit arts sector. These compelling facts substantiate the significant role of the nonprofit arts to California's economic well-being and status as the world's fifth largest economy. The goal of the new study is to document the current impact of arts and cultural activity on California's economy and quantify the changes that have occurred since 1994. A multi-state team of independent, nationally known arts consultants and economists were retained to collaborate on this year-long project.

The irony of this report is its timing. When plans were made in 2002 to commission an update to the 1994 report, we could not have predicted the devastating 94 percent cut to the California Arts Council's budget – the largest reduction in the agency's 28-year history – slashing funding from \$18 million in state general funds to \$1 million. This precipitous drop in support placed California 50th among the states in per capita arts spending and continues to severely affect vast segments of the arts community.

Many arts organizations and individuals from around the state who have contributed to this study have lost their positions due to budget cuts (including a significant loss of California Arts Council staff). The research team struggled with data collection, because substantial numbers of the selected 3,200 nonprofit arts and cultural organizations had either gone out of business or had reduced or stopped programming. The 2002 data on which this report is based provides a snapshot of California's arts and cultural sector prior to the 2003 budget cut. Additionally, the study is bolstered by research conducted by Americans for the Arts, a respected national organization, a highlight of which is included in Chapter 6.

We appreciate the efforts of all who contributed to the development of this report and hope these findings result in increased public awareness and support for the value of the arts in our state and the view that the "arts mean business in California."

Barbara George
Chair

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Director

NOTE REGARDING METHODOLOGICAL ASSUMPTIONS

Economic Impact Studies produce differing sets of numbers as to total economic activity, jobs created, tax revenue raised and other markers based on differing sets of methodological assumptions. Thus, this study yields a total economic impact yardstick markedly less than previously used numbers based on the Americans for the Arts study of last year. The reasons for that difference include: 1) the Americans for the Arts study had a wider universe of organizations, activities, and services included in the initial sampling; 2) a larger multiplier number used to calculate audience spending in conjunction with performance attendance -- \$24 vs. \$16 for the current update; 3) and a focus on major urban areas vs. the current study's inclusion of the full geographic balance of the state.

Our previous use of the Americans for the Arts study numbers was based on a calculation of the California impact using a simple per capita formula of the California population to the population of the United States (12%). As the latest Americans for the Arts Dun & Bradstreet data numbers (Chapter 6 in the current report) confirm, California has twice the number of creative industry organizations than its next nearest competitor (89,000+ to New York's 45,000+), and thus, based on the Americans for the Arts data as a stand alone study, that formulation is, if anything, somewhat modest.

Similarly, the Department of Tourism calculates that one out of every four dollars (\$17 billion annually) spent by tourists is culturally related. Those numbers assume not only the money spent by audiences on restaurants, parking, gas etc., but also allocates lodging and travel expenses to the category, and thus the higher number.

The current study intentionally used the same conservative methodology as employed in 1994 by KPMG Peat Marwick in producing *The Arts: A Competitive Advantage for California* so as to track that decade old sampling and provide data for comparative purposes.

Whatever methodological assumptions are employed and whatever the baseline universe considered, there is no dispute that the total economic impact, jobs created (direct and ancillary) and the amount of tax / fee revenue generated for local / state government attributable to the arts (nonprofit and the wider creative industry category of the private sector) is big business for California, comparable to other important economic engine contributions to our economy and future growth. Too often the perception of the arts ignores that the sector is analogous to other enterprises – 10,000 nonprofit arts organizations are 10,000 small businesses.

EXECUTIVE SUMMARY



California is a state of many distinctions: its economy is the fifth largest in the world and the largest in the United States;¹ it is the most popular state in the country to live in;² and attracts the highest number of visitors.³ From its artists and nonprofit arts and cultural organization, to its commercial arts and entertainment industry, the arts in California significantly contribute to the state's distinctiveness. *The Arts: A Competitive Advantage for California II*, a study commissioned by the California Arts Council (CAC)

with support from The William and Flora Hewlett Foundation, the Arts & Business Council of Sacramento, and Cultural Initiatives Silicon Valley, focuses primarily on the economic impact of nonprofit arts on the state's economy. It includes analysis-measuring growth over the past decade and substantiates nonprofit arts and cultural organizations' contributions to the vitality of California. This study also includes a preview of groundbreaking national research conducted by



Los Angeles skyline, courtesy of LA Convention and Visitors Bureau

Americans for the Arts (AFTA) about the creative industries⁴ in California.

"Forming the base of major industries; creating exchanges of ideas; providing encounters with beauty; and making cities, towns, and rural communities better places to live and work, California's arts are not just its soul and its identity, but a major part of its economy. This rigorous examination of California nonprofit arts and cultural organizations should be required reading for arts professionals, policymakers, academicians, members of the media, government leaders, and voters."

Frances N. Phillips
Senior Program Officer
Walter & Elise Haas Fund

A team of independent consultants was selected in November 2002 to work on this study for the California Arts Council and its constituents. Over a 10-month period from May 2003 to March 2004, the project's three principals: Dr. Eric Thompson, project economist; Diane Mataraza, project manager; and Angela Johnson, California field coordinator, assisted by a team of 17 individuals, collected and analyzed large quantities of data to produce this report.

Some 10,000 organizations strong, the economic footprint of California's nonprofit arts and cultural

organizations is broad-based and extends across the state from its largest metropolitan to most rural areas. In spite of California's difficult economic environment and the effects of 9/11, non-profit arts organizations attract an audience of 71.2 million and bring a \$5.4 billion impact to the state's economy, including 66,300 full-time (40,000 arts related plus 26,300 having an impact on the arts) and 95,100 part-time jobs, and generate nearly \$300 million in state and local taxes.

ARTS AND CULTURAL SECTOR GROWTH SINCE THE 1994 STUDY

In just one decade, California's nonprofit arts and cultural sector shows triple digit growth. When results of the 1994 study were compared with current findings, significant increases were revealed:

- The overall economic impact of the arts is 152 percent greater than the 1994 study.
- Local and state taxes generated as a result of the arts are up 279 percent.
- Admissions and on-site sales increased 141 percent.
- Arts and cultural organization worker income has increased 89 percent.
- Arts and cultural organization income has increased 207 percent.
- Grants and contributions to the arts have grown 318 percent.

Since the 1994 study, California's population has increased 16 percent and the state budget has grown 23 percent; however, the California Arts Council's appropriation from the State General Fund to serve the residents of California has decreased 92 percent—from \$12.6 million in 1994 to \$1 million in the current year.

STUDY DESIGN

The major purpose of this study is to measure the current economic impact of the nonprofit arts and cultural sector and compare it to the results of the 1994 study. Given that mandate, data from organizations was collected using nearly identical survey instruments from the prior study. But unlike the 1994 study, this report also measures the value of the arts to student learning and the impact of the current economic environment on philanthropy. In an effort to capture the impacts from other segments of the arts industry in California, the 1994 study included analysis of the impact of artists as well as commercial arts industries: the state's motion picture and television industry, its art, auto design, and musical instrument manufacturing industries.⁵ This study captures commercial arts sector information but in a different way. Research conducted by Americans for the Arts to more precisely quantify the impact of the arts industry in the national economy has been developed on a parallel timetable and California results are included in this study.

"Along with recognizing Hollywood's artistry, it is important to acknowledge how essential film and television are to the economy of the City of Los Angeles and to the State of California, and that goes for all art produced in the state. People need to understand that the arts are a tremendous economic engine that bring jobs and prosperity to communities as well as joy to our souls."

Martin Sheen
Actor

Various strategies were used to gather thousands of pages of data:

- 3,200 postcards printed in both Spanish and English were mailed to organizations randomly selected to participate, thus announcing the campaign.
- 11,000 arts organization surveys were distributed two to four times to each of the 3,200 organizations randomly selected to participate in this study. The surveys sought information about income, expenditures, personnel — both paid and volunteer — and attendance at performances and other program offerings. The survey was available in Spanish, English and online at a Website built exclusively to receive field data.
- 36,200 audience surveys — also printed in both Spanish and English — were distributed to organizations to collect information from their audiences about their expenditures and also to assess the extent to which they value arts offerings.
- 700 schools were surveyed to assess how the arts are used to help California's students learn.
- 15 foundations with a track record of giving in California were surveyed to help us understand the impacts of the current economic environment and 9/11 on their ability to give now and in the future.

HOW IS ECONOMIC IMPACT DERIVED?

Organization expenditures are the basis for the economic impact of the nonprofit arts sector. Economic impact is derived by taking direct expenditures and adding a multiplier to calculate additional spending. For example, when arts employees spend their salaries on household needs such as groceries, retail purchases, health care, mortgage or rent payments, and phone and utility bills, their spending creates additional economic activity in each of these industries. At the same time, arts organization purchases of goods and services create employment at commercial printing businesses, insurance companies, art supply stores, lighting and acoustic equipment stores, to give a few examples. All of these businesses and their employees, in turn, spend their income, and the impact grows. These various indirect impacts multiply and when added to direct expenditures of arts organizations yield the total economic impact of the nonprofit arts sector in California.

WHAT METHODOLOGY WAS USED?

This study utilized the IMPLAN software package and California database to calculate economic multipliers for California and selected counties within the state.⁶ IMPLAN software is used by economists, consultants, and planners and generates multipliers for hundreds of specific industries. It is comparable to the methodology used in the 1994 study.

Americans for the Arts *Creative Industries* project researchers carefully defined the composition of the creative industries by using Standard Industrial Classification (SIC) codes to identify arts-centric businesses. These SIC codes were identified and yielded 650+ unique kinds of creative sector industries: everything from art dealers, antique art stores, advertising companies, interior design firms, textile producers, musical instrument manufacturing and sales, to casting and booking agencies, arts publishers, television stations, and motion picture distribution.⁷ The selected SIC codes were then used to download relevant businesses from the Dun & Bradstreet database of 12.8 million active U.S. businesses.

KEY FINDINGS

Enormous amounts of data were collected to provide us with this primary finding — the arts contribute \$5.4 billion into the state's economy as compared to the \$2.15 billion impact revealed in the 1994 study. Data amassed by the project team revealed many valuable findings highlighted here and further explained in the chapters that follow.

- **Total nonprofit arts sector spending in California is \$2.2 billion.** This number includes direct expenditures by nonprofit arts and cultural organizations on everything from wages and benefits to goods and services. In addition to payroll, which constitutes 47.5 percent of all spending, it includes cash expenditures on items such as scripts and music scores, printing, office supplies, lumber, computers, and travel. Nonprofit arts organizations also spend considerable sums annually on a variety of administrative services ranging from accountants, financial managers, caterers and carpenters, to choreographers, interpreters, set designers, filmmakers, musicians, dancers, writers and more.⁸
- **California's nonprofit arts attract 71.2 million people.** A closer look at the activities of those 71.2 million includes participants taking dance and pottery classes, season subscribers attending the ballet, family members attending arts festivals, residents attending exhibitions at the neighborhood arts center, and youngsters enrolled in drawing classes. Among the 71.2 million persons are 6 million tourists. In this report, 71.2 million is calculated by counting the number of times one individual attends events in the course of the year. For example, if one person attends eight events a year, she is counted eight times.
- **Audience spending in California is big business.** The state's 71.2 million arts attendees spend much more than the price of admission — a billion dollars more — which contributes significantly to economic activity in the state's overall economy. An example of an off-site expenditure is what a family of five spends in addition to arts festival admission and purchases made at the festival. This might include, for example, breakfast on the way to the festival, the cost of a new pair of comfortable walking shoes, parking, fuel and tolls.⁹
- **Nonprofit arts generate millions of dollars in tax revenue.** The earnings of arts sector employees and the combined spending of the state arts organizations and 71.2 million arts attendees generate impacts on state and local taxes — an impact totaling nearly \$300 million, as of this report.
- **The impact of the nonprofit arts sector includes \$2.7 billion in worker income.** These worker income impacts are comparable to those of workers in California's sports and recreation clubs, commercial sports, and auto rental industries.¹⁰

- **In California, there are more arts-related businesses (89,719) — including nonprofit organizations — and more people employed (516,054) in the creative industries than in any other state in the nation.** *Creative Industries in California* — groundbreaking research conducted by Americans for the Arts and unveiled in Chapter 6 of this study demonstrates that the creative industries are a significant industry in California.
- **The creative industries fuel the rapid growth of the new “information economy”—the fastest growing segment of the nation’s economy.** According to Carnegie-Mellon University professor of economics, Richard Florida, the information economy has grown from three percent of the U.S. workforce to more than 30 percent in the past 50 years. In addition to the creative industries, the information economy includes sectors such as technology, research, and medicine — all industries where the currency of creativity, new ideas, and adaptive thinking hold the most value.
- **California’s concentration of artists and nonprofit arts organizations is among the largest in the nation.** California leads the nation on many fronts in the arts scene. Current research tells us California is home to the largest community of artists as a percentage of the total state labor force (2.3 percent) than any other state.¹¹ California’s three cents per capita spending on the arts is the smallest in the nation, ranking it last among all 50 states.¹²
- **Nonprofit arts contribute to California’s ranking as the most visited state in the nation.** The primary motivation for 6 million tourists to travel in California is to enjoy nonprofit arts. In addition to what tourists spend at an arts event, the cost of lodging, meals, transportation and retail the day of an event as well as the day before or after an event is considerable. Total economic impact of tourists spending is just under \$1 billion.¹³
- **Philanthropic support — money received from foundations, individuals, and corporations — plus government subsidies total \$1.06 billion and are vital to keeping the arts accessible and affordable to all Californians.** It is frequently — and accurately — argued that if the arts were to exist exclusively on ticket sales, admissions, and other participation-related income, no one could afford to participate in the arts. Additional dollars to subsidize the costs of making and presenting art will always be necessary. Philanthropic support — including government subsidies such as grants from the California Arts Council or city arts commissions — is vital to keeping the arts affordable and accessible.
- **Californians not only provide financial support, they generously give their time.** Arts and cultural organizations are reliant on community volunteers serving on boards of directors or providing pro bono legal, financial, design and other professional services. For the majority of organizations, volunteers constitute a critical unpaid labor force serving as ushers, docents, set builders, technicians, and participants in artistic presentation, as well as performing ongoing administrative functions. California nonprofit arts organizations’ aggregate volunteer

hours total 10 million. Using the Independent Sector's 2002 dollar valuation of volunteer time, that's the equivalent of \$165.4 million.

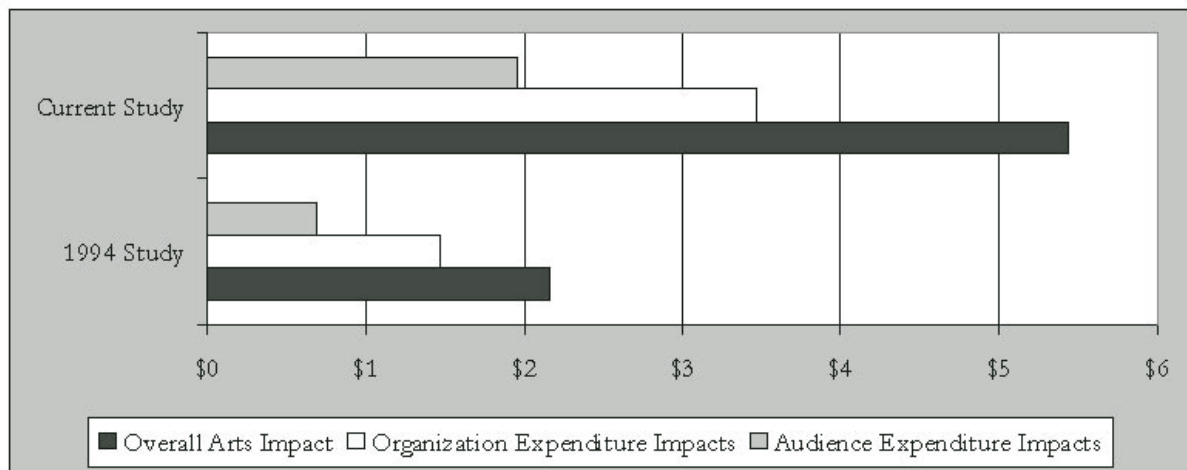
- **Nonprofit arts are economic engines in communities both small and large.** In the state's more rural communities, arts venues are essential elements in downtown revitalization, generating an impact of \$120 million annually.¹⁴ In California's large metropolitan areas, the arts make important contributions to urban renewal and development. In Los Angeles County, which has the largest economic impact of the arts in the state, \$2 billion is contributed to the economy.
- **Californians value the arts first and foremost because they contribute to quality-of-life.** In a statewide survey of arts audiences, respondents ranked arts impact on quality-of-life in their communities as most important. Californians believe arts contributions to individual health and enrichment are greater than the role of the arts in generating economic activity or jobs.¹⁵
- **Arts education in primary and secondary schools yields a substantial amount of economic activity in California. The amount of spending - \$657 million - is nearly one-third as large as the spending of California nonprofit arts organizations.** This activity should be considered in addition to the \$5.4 billion in economic impact. Support from parent organizations and students directly account for one-third of all support for arts funding in schools – not much less than the 49 percent share from school operating budgets.
- **Californians value the role of arts in education in the future success of children.** Arts audiences consider arts education in schools a high priority. Among the state's classroom teachers, 75 percent embrace the philosophy that the arts are important in a child's well-rounded education. More significantly, 35 percent of the state's teachers integrate the arts into their classroom curriculum as a way to help students learn.¹⁶
- **Californians care a great deal about the vitality of the arts sector and would pay more in taxes to prevent reductions in arts and cultural programming.** We estimate that the average California household is willing to pay an additional \$15.35 annually through taxes and other means to avoid a 25 percent reduction in arts events and \$33.27 to avoid a 50 percent reduction. Given California's 11,503,000 households, it means residents would be willing to pay \$382.7 million more each year for arts activity — a substantial difference from the state's current \$1 million appropriation to the California Arts Council.¹⁷
- **California's rich and diverse mix of arts resources and genres contribute to the arts sector's economic vitality.** California's mix of arts providers is vast: from those preserving cultural traditions, promoting the literary arts and exhibiting visual art, to those who pres-

ent or tour dance, film, music or theatre. And it's this diversity that helps attract 71.2 million people to arts events. Performing arts organizations account for half of the sector's statewide impact followed by museums and arts-focused educational institutions.

- **Regranting within the arts sector is a critically important function generating economic activity.** Many arts councils and arts commissions in California cultivate and then regrant public and private sector funds to artists and arts and cultural organizations in their communities. For example, the City of Los Angeles Cultural Affairs Department annually regrants millions of dollars to hundreds of nonprofit arts organizations. The majority of these organizations would never have the resources to cultivate these dollars on their own. Local regrant programs around the state collecting and regranteeing both private and public sector dollars are a major source of stability for thousands of organizations bringing arts and culture to millions of residents. Arts councils and commissions that exist to guide and support community cultural development, account for over \$100 million in annual expenditures in California's economy.¹⁸

These facts and others described in this study substantiate the importance of the arts in California. Figure 0.1 below shows the nonprofit arts sector's 152 percent increase in economic impact activity over the past decade from \$2.15 billion in the 1994 study to \$5.4 billion today. We're able to see the proportion of organization, worker and audience spending from both studies that together provide us with the snapshot in time of the economic impact of the arts.

Figure 0.1: Comparison of Overall Impacts from the 1994 Study and Current Study (in Billions)



Source: Authors' calculations

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Mary Elen Wenzel, Arts Council of Tulare County
Candace Whitendale, Arts Council of Tulare County
R. Renae Williams, Los Angeles County Arts Commission
Lawanda Wollenman, Porterville Art Association
Khan Wong, Grants for the Arts San Francisco
Stephanie Wong, East West Players
Eve Yeung, The J. Paul Getty Museum
Laura Zucker, Los Angeles County Arts Commission



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FOOTNOTES

¹ Source, State of California, Commerce and Economic Development.

² Harris Interactive, The Harris Poll #44, August 6, 2003.

³ Source, California Department of Tourism.

⁴ Creative Industries is used by AFTA in Chapter 6 to refer to both commercial and nonprofit arts organizations. Chapters 2-5 in this report pertain to nonprofit arts and cultural organizations only. These are the same organizations used in the 1994 study. Heretofore, these organizations will be referred to as nonprofit arts organizations or the nonprofit sector.

⁵ Chapters in the 1994 study included: The Artists of Los Angeles County by Laura Zucker, Los Angeles County Music and Performing Arts Commission; The Motion Picture and Television Industry in California by Dr. Richard Boykin, KPMG Peat Marwick LLP; A Case Study of Seven California Festivals: The Arts as an Economic Partner by Petra Schumann, California Arts Council; Art and Auto Design in California by Robert Andrews, UCLA, and Ron Hill, Arts Center College of Design; and Musical Instruments: A Manufacturing Industry in California by Dr. Richard Boykin.

⁶ The IMPLAN software generates a model of the industrial structure and household profile for the California economy. This structure in turn determines the extent to which spending by arts organizations and audiences is captured and re-circulated within the California economy rather than allowed to “leak” outside of the state. A more structurally diverse economy will capture and re-circulate spending and generate a larger economic multiplier. The software and model data can be used to generate economic multipliers for counties, states, and combinations of counties and states throughout the nation. The model also can generate multipliers for hundreds of specific industries, including the specific industries that provide goods and services to arts organizations and arts audiences.

⁷ SIC codes can be found in Appendix E, section 4.

⁸ Chapter 2. Economic Impacts of the Nonprofit Arts.

⁹ Chapter 2, Economic Impacts of the Nonprofit Arts, Section B, Audience Spending.

¹⁰ Chapter 2. Economic Impacts of the Nonprofit Arts, Section C, Comparison with Other Industries.

¹¹ Lee Mizell, Lee Mizell Consulting, 2004, *Geography and Public Participation in the Arts: Ten States*, Prepared for the National Endowment for the Arts. Additional information about this research is in appendix F.

¹² Chapter 2, Economic Impacts of the Nonprofit Arts, Section D, Sector Growth Since 1994.

¹³ Chapter 2, Economic Impacts of the Nonprofit Arts, Section B, Tourism.

¹⁴ Chapter 2, Economic Impacts of the Nonprofit Arts, Section A, Organizational Expenditures and Revenues.

¹⁵ Chapter 3, Arts Value to the Public: Quality-of-Life, Arts Contribution to Quality-of-Life Outcomes.

¹⁶ Chapter 4, Assessment of Arts Value to Education and Student Learning.

¹⁷ Chapter 3, Arts Value to the Public: Quality-of-Life.

¹⁸ Chapter 2, Economic Impacts of the Nonprofit Arts, Section A, Organizational Expenditures and Revenues.

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